Fraser & Neave Holdings (FNH MK)

2QFY26: Darkest Before The Dawn

	BUY (Maintained)
Share Price	RM31.30
Target Price	RM38.70
Upside	22.4%
Previous TP	RM40.00

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Highlights

- Earnings were below expectations. The Cambodia-Thailand border conflict and lacklustre sales in Malaysia weighed on top-line.
- Margins were further dragged by start-up costs for its dairy project and production in Cambodia, partially cushioned by lower input cost.
- Maintain BUY as F&N offers bargain valuations and its dairy project is gaining traction. Lower target price to RM38.70.

2QFY26 Results

Year to 30 Sep (RMm)	2QFY26	qoq % chg	yoy % chg	1HFY26	yoy % chg	Comments
Revenue	1,232.4	(5.4)	(7.6)	2,535.9	(6.9)	Cambodia-Thailand border conflict and muted Malaysia sales contributes to lacklustre performance.
GP	378.7	(10.4)	(11.6)	801.4	(9.2)	
EBIT	143.4	(18.5)	(22.0)	319.4	(19.7)	Further dragged by lower economies of scale and start-up costs attributed to Cambodia and dairy farm projects.
PBT	145.8	(17.1)	(23.1)	321.6	(25.2)	
Net Profit	96.3	(14.2)	(31.4)	208.5	(32.6)	
Core Profit	96.3	(13.2)	(31.9)	207.2	(33.2)	Below expectations.
Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg	
Gross Profit	30.7	(1.7)	(1.4)	31.6	(0.8)	
EBIT	11.6	(1.9)	(2.1)	15.9	(1.4)	
Eff. tax rate	(35.1)	1.0	(8.9)	(35.6)	(7.8)	
Core Profit	7.8	(0.7)	(2.8)	8.2	(3.2)	

Source: F&N, UOB Kay Hian

Analysis

- **Below expectations.** Fraser & Neave Holdings (F&N) reported a 2QFY26 core net profit of RM96.3m (-13.2% qoq, -31.9% yoy). This brought 1HFY26 core profit to RM207.2m (-33.2%). This is below expectations, accounting for 38% and 36% of our and consensus full-year earnings forecasts respectively. The Cambodia-Thailand border conflict continues to weigh on sales while the quarter was further dragged by start-up costs related to production in Cambodia and its dairy project.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5245.6	5196.6	5208.8	5993.8	6332.8
EBITDA	900.5	1859.2	1760.8	2110.5	2156.8
Operating profit	846.7	896.6	806.3	1012.1	996.3
Net profit (rep./act.)	542.8	508.5	427.2	556.3	588.0
Net profit (adj.)	543.7	517.3	427.2	556.3	588.0
EPS	162.6	401.1	376.7	458.9	476.7
PE	21.1	22.2	26.9	20.7	19.5
P/B	3.2	3.0	2.8	2.6	2.4
EV/EBITDA	13.1	12.6	14.2	11.2	11.1
Dividend yield	2.0	2.1	1.7	2.2	2.4
Net margin	10.4	10.0	8.2	9.3	9.3
Net debt/(cash) to equity	-12.0	-0.9	-2.3	-5.7	-10.8
Interest cover	23.3	25.4	25.0	37.8	62.7
ROE	15.7	13.3	10.5	12.9	12.6
Consensus net profit	n.a	n.a	564	621	689
UOBKH/Consensus (x)	n.a	n.a	0.76	0.90	0.85

Source: F&N, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Consumer Staples
Bloomberg ticker	FNH MK
Shares issued (m)	366.8
Market cap (RMm)	11,510.0
Market cap (US$m)	2,899.2
3-mth avg daily t'over (US$m)	4.0

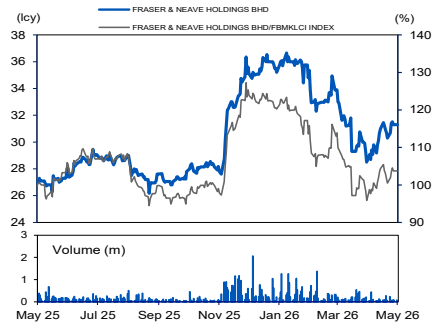
Price Performance (%)

52-week high/low				RM29.46/RM23.30
1mth	3mth	6mth	1yr	YTD
4.3	(11.5)	11.2	15.5	(11.1)

Major Shareholders

	%
Fraser and Neave Ltd	55.5

Price Chart



Source: Bloomberg

Company Description

Leading beverage player which is principally involved in the manufacture, sale and marketing of soft drinks, dairies, and non-carbonated drinks.

2QFY26 Results By Segment

Year to 30 Sep (RMm)	1QFY26	qoq (%)	yoy (%)	1QFY26	qoq (%)	Comments
Revenue						
Msia	773.5	(4.8)	(1.0)	1,585.9	2.3	Marginal decline but disappointing quarter.
Thai	458.2	(6.5)	(16.9)	948.4	(19.0)	Cambodia-Thailand border conflict continues to weigh on topline.
EBIT						
Msia	56.2	(35.1)	(23.3)	142.8	(16.1)	Stripping out dairy losses, profit would have been flattish.
Thai	92.6	1.8	(23.0)	183.6	(27.6)	
EBIT Margin	(%)	+/- ppt	+/- ppt	(%)	+/- ppt	
Msia	7.3	(3.4)	(2.1)	9.0	(2.0)	
Thai	20.2	1.7	(1.6)	19.4	(2.3)	Weighed by Cambodia start-up costs and lower economies of scale.

Source: F&N, UOB Kay Hian

- **Malaysia: Disappointing sales amid peak dairy losses.** 2QFY26 sales in Malaysia saw a marginal decline (-1.0% yoy). Beverage businesses appeared to have softened amid cautious spending and competitive market conditions that were offset by increased dairy contributions. Operational earnings declined by 23.3% yoy. Excluding dairy farm losses, F&B Malaysia would have delivered flattish operating profit, supported by favourable input costs. This implies dairy farm losses of -RM19m. Management had highlighted that dairy farm losses should gradually diminish now that its dairy manufacturing plant is operational and its second batch of cows are yielding milk.
- **Thailand: Border conflict continues to weigh.** Revenue contracted sharply by 16.9% yoy due to disruptions to exports to Cambodia amid other export and domestic sales growing. Sales should recover well due to the following factors: a) anticipated 2026 tourism revenue rebound of 11% vs 2025's -1.3%, and b) Cambodia has/will commence its own condensed and evaporated production in Mar and mid-26 respectively. Margins were weighed by lower economies of scale and start-up costs related to the set-up of its new manufacturing operations in Cambodia that were partially offset by favourable input costs.

Valuation/Recommendation

- **Maintain BUY but with a lower target price of RM38.70** (from RM40.00) in tandem with our revised earnings amid a roll over in valuations to FY27 from FY26. Despite the immediate headwinds, we believe F&N is on the cusp of a turnaround and further buoyed by its exciting upstream dairy project kicking in. For a large-cap consumer staple, F&N continues to trade at bargain valuations. Our target price is based on a DCF implying 25.3x FY27F PE, which is slightly above its seven-year mean of 24.4x.

Earnings Revision/Risk

- We slash our FY26-28 earnings forecasts by -23/7/7% respectively to account for lower margin and sales assumptions. Key downside risks are spiralling commodities prices and US$/RM forex rates.

Key Assumptions

	2026F	2027F	2028F
Sales (RMm)	5,209	5,994	6,333
Malaysia – ex dairy (% yoy)	-2.5	0.0	0.0
Dairy (% yoy)	n/a	155	25
Dairies Thailand (% yoy)	-16.0	5.0	3.0
EBIT	806	1012	996
margin (%)	12.2	13.6	12.4

Source: UOB Kay Hian

Forward PE Band

Source: Bloomberg, UOB Kay Hian

Environmental, Social, Governance (ESG)

Environmental

- **Emissions management.** Reduced solid waste intensity ratio by 62% from 2017.

Social

- **Wellbeing.** Lowered the amount of sugar contained per ml in all its beverages by 59% since 2004.
- **Diversity & inclusion.** Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity.

Governance

- **Board balance and composition.** Six board members are independent directors, amounting to 55% of the board members.

Source: F&N, UOB Kay Hian

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	5197	5209	5994	6333
EBITDA	1859	1761	2110	2157
Deprec. & amort.	137	151	172	199
EBIT	897	806	1012	996
Associate contributions	-1	0	0	0
Net interest income/(expense)	-11	-15	-18	-13
Pre-tax profit	697	731	617	772
Tax	-153	-216	-183	-208
Minorities	-2	-6	-6	-7
Net profit	508	427	556	588
Net profit (adj.)	517	427	556	588

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	1,728	2,221	2,449	2,475
Other LT assets	1,014	1,034	1,021	1,006
Cash/ST investment	1135	626	586	542
Other current assets	1,598	1,733	1,701	1,958
Total assets	5,474	5,614	5,756	5,981
ST debt	114	254	204	104
Other current liabilities	996	919	938	1,071
LT debt	592	338	288	188
Other LT liabilities	186	224	223	222
Shareholders' equity	3,576	3,863	4,094	4,393
Minority interest	11	16	10	2
Total liabilities & equity	5,474	5,614	5,756	5,981

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	733	604	638	624
Pre-tax profit	697	731	617	772
Tax	-153	-216	-183	-208
Deprec. & amort.	137	151	172	199
Working capital changes	11	-147	51	-124
Other operating cashflows	40	85	-19	-14
Investing	-254	-717	-382	-212
Capex (growth)	-258	-737	-400	-225
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	4	20	18	13
Financing	-365	-405	-297	-456
Dividend payments	-294	-231	-197	-256
Issue of shares	0	1	2	3
Loan repayment	0	-114	-100	-200
Others/interest paid	-71	-59	0	0
Net cash inflow (outflow)	114	-517	-41	-44
Beginning cash & cash equivalent	1032	1135	626	585
Changes due to forex impact	-10	8	0	0
Ending cash & cash equivalent	1135	626	585	540

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	16.1	17.3	15.5	16.9
Pre-tax margin	13.3	14.2	11.8	12.9
Net margin	10.4	10.0	8.2	9.3
ROA	10.3	9.2	7.5	9.5
ROE	15.7	13.3	10.5	12.9
Growth				
Turnover	4.9	-0.9	0.2	15.1
EBITDA	7.3	5.9	-10.1	25.5
Pre-tax profit	24.5	6.0	-16.6	25.2
Net profit	-6.3	-16.0	30.2	5.7
Net profit (adj.)	-4.9	-17.4	30.2	5.7
EPS	-4.9	-17.4	30.2	5.7
Leverage				
Debt to total capital	12.9	10.5	8.5	4.9
Debt to equity	19.7	15.3	12.0	6.6
Net debt/(cash) to equity	-12.0	-0.9	-2.3	-5.7
Interest cover	23.3	25.4	25.0	37.8

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